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Winspear Business Reference Room  
University of Alberta  
2-18 Business Building  
Edmonton, Alberta T6G 2R6



CAPCO RESOURCES LTD.

1994 ANNUAL REPORT



# Company Profile

Capco Resources Ltd. (Capco) is a diversified international energy and asset development company; currently producing oil and gas in Alberta, (Canada), California, Texas, Michigan, Wyoming, New Mexico, Oklahoma, (USA), and in Colombia (South America). Capco intends to participate in the construction of a power plant in Pakistan during 1995. In addition to its oil and gas production and power plant, Capco has downstream operations through its ownership of an asphalt refinery in California, and its proposed acquisition of a wholesale and retail petroleum marketer in Colorado and New Mexico.

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The Company's goal for 1995 is to look for opportunities to diversify within the energy sector. The Company plans to continue its pattern of acquiring oil and gas properties in areas of current production to achieve greater economies of scale. Capco intends to pursue acquisitions on an international scope as it was found that in some cases the opportunities are more attractive than in the Canadian marketplace.

Capco Resources Ltd. is a publicly owned company listed on the Alberta Stock Exchange, under the symbol "CPD".

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# *Company Profile*

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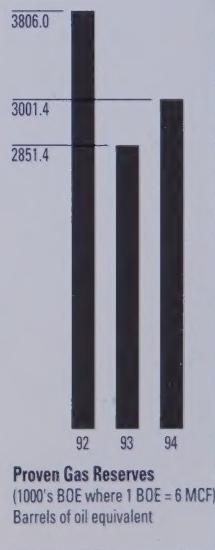
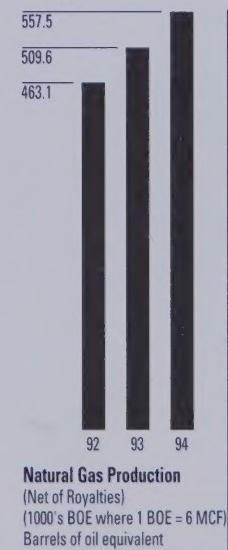
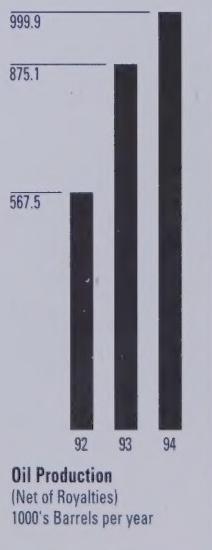
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## Selected Financial & Operating Data

Years Ended December 31 (In Canadian \$)

### Financial Data

	1994	1993
Revenues	\$ 24,701,095	\$ 20,843,576
Net income (loss)	(732,593)	215,797
Net income (loss) per common share	(0.08)	0.02
Cash flow provided by operations	5,692,226	2,899,620
Cash flow per common share from operations	0.63	0.32
Common shares issued and outstanding	9,080,878	9,080,878
 Total Assets	 32,993,379	 25,951,451
Long term debt	10,764,758	8,346,536
Total liabilities	29,761,160	22,137,620
Shareholders' equity	3,232,219	3,813,831
 Operating Data	 	 
Average daily production (BOE/day)	4,587	4,112
Total annual production (BOE)	1,674,411	1,500,803
 Proved Reserves	 	 
Oil (BBLS)	8,351,393	4,769,829
Natural gas (MCF)	18,008,773	17,108,498
Barrels of oil equivalent (BOE)	11,352,855	7,621,245
 Present value of future net reserves (SEC-undisc.)	 \$ 64,837,467	 \$ 35,084,799
Present value of future net reserves (SEC-disc. 10%)	43,398,951	25,238,586



## *President's Message*

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On behalf of the Board of Directors, the management and the employees of Capco Resources Ltd., I am pleased to present your Company's 1994 Annual Report.

*The major accomplishments for 1994 were as follows:*

- Receipt of approval to construct a 109 MegaWatt power plant in Pakistan, and the teaming-up with Cogen Technologies of Houston, to build the plant
- Purchase of an asphalt refinery near Company production in California to process some of the Company's heavier oil
- The acquisition of additional producing properties in Canada, and the United States
- Drilling of two horizontal wells in California where the Company has 50% working interest  
One of the wells has been completed and the other well is undergoing production testing

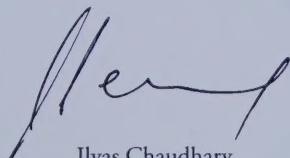
*For 1995 the Company plans to accomplish the following:*

- Commence operations of the asphalt refinery in California, which occurred in May 1995
- Acquire additional producing oil and gas properties in Canada, USA and Colombia
- Diversify further within the energy sector
- Raise capital to meet the growing acquisition needs
- Raise the funding required to participate in the two year construction of the Pakistan Power Plant
- Evaluate asset positions on a regional basis and pursue efforts to enhance asset value

Management's goal for 1995 is to continue the Company's accelerated rate of growth. This will require new sources of equity and debt capital and a commitment of the Company's human and material resources to focus on the challenge of meeting our ambitious expansion plans. Maintaining such high growth rates will be challenging, but we believe that the Company can attain its goals through the dedication of its experienced professional corporate and field personnel.

I would like to take this opportunity to thank our employees for an exceptional effort throughout the year.

In closing, we would like to assure all our stockholders that our management team at Capco remains committed to continued improvements in your Company's future performance.



Ilyas Chaudhary  
President

## *Corporate Offices and Major Producing Areas*



- ☆ *Corporate Headquarters*
- ◆ *Other Corporate Offices*
- \* *Major Producing Areas*

# *Pakistan Power Plant Project*

The Islamic Republic of Pakistan is subject to severe power shortages due to the lack of electrical capacity. Only 40% of the population have electricity available, and the service is unreliable. Approximately 43% of the power is generated from hydro-electric plants which are highly susceptible to seasonal variations. When the rivers are low, between the months of December and May, the country is faced with brown-outs.

Due to rapid economic growth, there has been a sharp increase in demand for energy. Power shortages have been estimated to cause a loss of as much as 2% of the Gross Domestic Product per year. Conservative projections of annual increases in the demand are nearly 8% per annum for the next 25 years. The Pakistan Government recognized the severity of the energy shortage and introduced incentives for investment in this sector.

In late 1993, the Company began investigating Pakistan's power shortage, and in September 1994, the Company received a "Letter of Support" from the Government of Pakistan to design, construct, own and operate a 109 MegaWatt thermal electric (powered by oil) power plant in Pakistan. The Government of Pakistan has agreed to supply the plant with all the necessary fuel required to produce electricity, and to purchase all of the electricity generated from the power plant for a thirty year period.

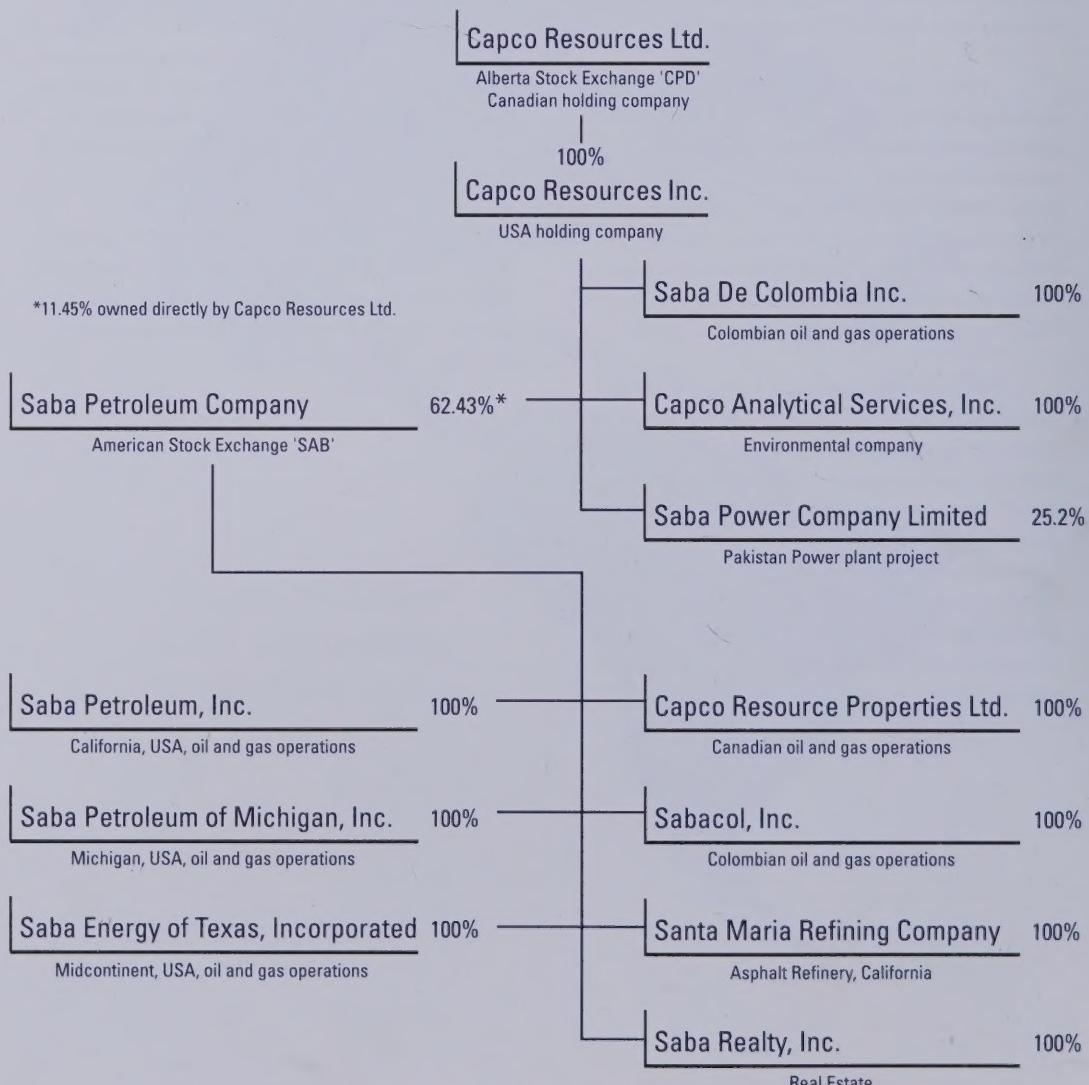
As Capco had no prior experience in this sector, it brought in the expertise of Cogen Technologies (the largest privately held power generation company in the USA) to take a leading role in the financing, construction, operation, and ownership of the power plant.

The project is estimated to cost approximately \$172 million (\$123 million US) and its two year construction is scheduled to commence in September 1995. Cogen is presently in discussions with various parties to secure debt financing of approximately \$132 million (\$94.7 million US) of the project's cost.

Capco is committed to fund \$5.7 million (\$4.05 million US) after earning a development fee of \$3.8 million (\$2.7 million US) of the cost of the project, in order to retain its 25.2% ownership in the plant.

## Operations Review

The Company's organizational structure is shown in the following chart. Capco Resources Ltd. operates through 3 wholly owned subsidiaries, one 62.43% owned subsidiary, (with 7 wholly owned subsidiaries) and one company that it exercises 25.2% significant influence over.



# *Operations Review*

## **Canada**

The Company manages its Canadian operations through its 62.43% owned subsidiary, Capco Resource Properties Ltd. (CRPL). The current production is approximately 300 BOPD net and 2,200 MCFD net. In an effort to expand its financing alternatives and operations, CRPL has signed a reverse takeover agreement of a third party Canadian oil and gas producer (Beaver Lake Energy Corporation). The Company's subsidiary will receive approximately 70% of the issued and outstanding shares of Beaver Lake. Closing of the transaction is subject to regulatory and shareholder approval, which is expected by September 1995. Subsequent to the closing of the transaction the Company will focus on the development of its holdings of undeveloped land.

## **USA** *California*

The Company's California operations are managed by its 62.43% ownership in Saba Petroleum, Inc. where production is currently 1,900 BOPD net. The company plans to increase production and reduce operating costs by placing-on-production idle wells.

## *Mid-Continent*

All of the Company's mid-continent operations are managed by its 62.43% owned subsidiary, Saba Energy of Texas, Incorporated. In May 1995, the Company acquired certain producing properties in South Texas which currently produce approximately 175 BOPD and 1,400 MCFD net. The acquisition is expected to provide enhancement opportunities in the form of development drilling, recompletions and workovers.

## *Michigan*

The Company owns a 25% interest in a gas plant and various interests in certain properties producing 225 BOPD and 1,165 MCFD net, through its 62.43% owned subsidiary, Saba Petroleum of Michigan, Inc. The Company plans to raise capital for this subsidiary through public and/or private offerings of its securities in order to participate in additional development drilling opportunities in this area.

## *Colombia (South America)*

The Company's Colombian operations are managed through its wholly owned subsidiary, Saba De Colombia, Inc. and its 62.43% ownership in Sabacol, Inc.

Saba De Colombia Inc. owns a 30% working interest in three oil fields and various production facilities in the middle Magdelen Valley of Colombia. Production is approximately 830 BOPD and 10,054 MCFD net to the Company.

In 1995 Sabacol, Inc., was incorporated and acquired a 25% interest in the Velasquez Field, which is currently producing 550 BOPD net, before the installation of a water injection system. After the installation, production is expected to increase to 1,000 BOPD net. Proved reserves net to the Company is approximately 2,971,000 BOE. Sabacol is currently negotiating the acquisition of additional producing properties from 3 oilfields and a pipeline in Colombia.

## *Operations Review*

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### *Asphalt Refinery*

The Company's refinery operations are managed through its 62.43% ownership of its subsidiary, Santa Maria Refining Company, located in Santa Maria, California. The refinery was acquired in 1994 to process the Company's heavier crude oils being produced in California. The Company has obtained a conditional use permit from the County of Santa Barbara, and the refinery began operations in May 1995. The Company has agreed to a joint venture with a third party to provide working capital and marketing assistance. Initial production is expected to be 3,000 BOPD, however the refinery has approval for processing as much as 10,000 BOPD.

### *Real Estate*

Wherever possible the Company, through its 62.43% ownership of its subsidiary, Saba Realty, Inc. purchases real estate in conjunction with its acquisition of oil and gas properties in the USA. The Company presently owns 200 acres in Santa Barbara County, California, and has 1,600 additional acres in escrow, closing of which is subject to completion of a subdivision map. In addition, the Company plans to acquire 383 acres in 1995. Certain of these properties have the potential for a higher land use than currently utilized. The Company will implement a business plan for each of its real estate holdings to capitalize on the maximum land use possible.

### *Environmental Company*

During 1994, the Company through its wholly owned subsidiary, Capco Analytical Services, Inc. began operations of a full service environmental testing laboratory. In context with the oil and gas industry, the Company reviews environmental damage from the production of oil and gas, specializing in the analysis of soils, drinking and waste water. The environmental services provided will assist the Company in evaluating future acquisitions of oil and gas properties for environmental damage.

# *Management's Discussion and Analysis*

The following should be read in conjunction with the consolidated financial statements of the Company and notes thereto.

## **Cash Flow Sensitivity**

The Company's operating performance is influenced by several factors, the most significant of which is the price received for its oil and gas production. The world price for crude oil has an overall influence on the prices that the Company receives for its oil. Typically, light oil is sold at a premium while heavier grades of crude are discounted. The Company's production stream is comprised of 67% oil and natural gas liquids and 33% natural gas.

## **Comparison of 1994 to 1993**

Summary information by Country (In Canadian \$)

1994	Canada	USA	Colombia	Total
Average price per BOE (combined)	\$ 15.18	\$ 17.32	\$ 8.63	\$ 13.55
Average price per Barrel of oil	19.30	17.70	11.91	16.35
Average price per BOE of gas	11.01	15.77	6.26	9.74
Average price per BOE of LPG	-	-	7.80	7.80
Operating costs per BOE	7.17	11.26	6.34	8.84
Depletion per BOE	3.85	2.69	1.39	1.99
Oil production (Barrels)	82,228	661,492	256,274	999,994
Gas production (BOE)	81,083	163,315	313,139	557,537
LPG production (BOE)	-	-	116,880	116,880
1993	Canada	USA	Colombia	Total
Average price per BOE (combined)	\$ 19.92	\$ 17.30	\$ 8.62	\$ 13.26
Average price per Barrel of oil	19.92	17.50	12.87	16.19
Average price per BOE of gas	-	16.66	5.70	9.63
Average price per BOE of LPG	-	-	7.09	7.09
Operating costs per BOE	16.26	10.02	4.57	7.59
Depletion per BOE	6.81	3.01	1.27	2.28
Oil production (Barrels)	34,670	574,600	265,917	875,187
Gas production (BOE)	-	182,716	326,950	509,666
LPG production (BOE)	-	-	115,950	115,950

The average sales price received per barrel of oil equivalent ("BOE") in 1994 was \$ 13.55 as compared to \$13.26 in 1993. The price per BOE in Canada decreased from \$19.92 in 1993 as compared with \$15.18 in 1994, due primarily to the acquisition of producing gas properties during the year (the gas price per BOE is lower than the oil price per BOE). This decrease was offset by increases in the average price per BOE received in both Colombia and the USA.

Other revenues were \$1,363,893 compared with \$949,303 in 1993, an increase of \$414,590. In November 1994, the Company realized a gain of \$584,605 (\$428,000 US) on the sale of real estate in California. Divestiture of non-strategic and non profitable properties in 1993 and the first quarter of 1994 resulted in a decrease in revenues of \$182,053 (\$133,285 US). The remainder of the change was due to additional fees earned by the Company in its capacity as operator of producing oil and gas properties.

## *Management's Discussion and Analysis*

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Oil and gas production increased from 1,500,803 BOE in 1993 to 1,674,411 BOE in 1994. The increase was primarily due to acquisitions of producing oil and gas properties in California, and in Canada.

Oil and gas production costs in 1994 were \$14,805,691 (\$8.84 per BOE) as compared to \$11,389,640 (\$7.59 per BOE) in 1993. The overall increase was due to higher production levels in 1994. On a BOE basis, production costs on properties located in the USA increased from \$10.02 in 1993 to \$11.26 per BOE in 1994, due to higher cost production acquired in California. Colombia production cost per BOE increased from \$4.57 in 1993 to \$6.34 in 1994 due primarily to increased workover activity to maintain production at constant levels. Canadian production costs per BOE decreased from \$16.26 in 1993 to \$7.17 in 1994, primarily due to the acquisition of lower operating cost properties in the year.

General and administrative expense ("G&A") was down from \$4,563,714 in 1993 to \$4,411,412 in 1994. G&A related to oil and gas production in the USA decreased by \$1,088,409 (\$796,844 US) as a result of the elimination of duplicative administration services and from office consolidations. G&A for the environmental company that started operations in 1994 in California was \$743,729 (\$541,366 US).

Depletion per BOE on an overall basis dropped to \$1.99 per BOE (1993 - \$2.28). The Canadian depletion per BOE decreased by 43% from \$6.81 in 1993 to \$3.85 in 1994 due to the acquisition of longer life properties in 1994. Depletion per BOE in the USA decreased from \$3.01 in 1993 to \$2.69 per BOE in 1994, primarily due to the increase in reserves. Depletion in Colombia increased from \$1.27 to \$1.39 per BOE, due primarily from the capitalized cost of drilling 2 wells in Colombia in 1993.

Interest expense was \$1,710,811 in 1994 as compared with \$1,026,289 in 1993. Interest expense from the acquisition of properties, and their related financing, in Canada, resulted in an increase of \$234,427. Interest expense from the outstanding income taxes in Colombia, resulted in \$662,560 (1993 - \$397,605) of additional interest. As the outstanding income tax was fully repaid in the second quarter of 1995, the related interest expense is expected to decrease substantially in 1995.

The current charge for income taxes relate to taxable income earned in Canada, USA and Colombia. The increase in deferred taxes results from a combination of operations in Colombia and in the USA.

# *Management's Discussion and Analysis*

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## *Capital Resources, Liquidity and Operational Plans*

At December 31, 1994 the Company reported total current assets of \$7,005,283 and total current liabilities of \$13,131,049 resulting in a working capital deficiency of \$6,125,766. Included in current liabilities is \$3,303,375 attributable to the current portion (next 12 months' estimated payments) of long-term debt, which will be paid from the Company's future cash flow from producing properties. Current liabilities also include notes payable of \$2,271,589 of which \$850,000 was paid in full in January 1995, and the remaining \$1,421,589 is payable to private investors. Although the notes are not considered by management to be current in nature, they are payable on demand, and thus are classified as current for purposes of the financial statements.

Cash flows from operating activities provided net cash of \$5,692,226 in 1994. The net loss of \$732,593 adjusted for the non-cash charges of \$5,006,004, was the principal source of this inflow.

Investing activities during 1994 resulted in an utilization of cash of \$9,443,112. Expenditures on the acquisition of oil and gas properties totalled \$11,790,384, and proceeds from the sale of oil and gas properties was \$1,348,432.

Financing activities resulted in \$3,835,359 of cash available use by the Company. Proceeds from bank loans and notes payable resulted in \$10,073,708 available, and repayments of \$7,655,486 reduced the debt of the Company. Affiliate advances of \$1,282,603 to the Company was provided as further financing activity.

The Company anticipates acquiring and developing additional oil and gas properties, and related energy sector assets in 1995. Although many factors will determine the extent to which acquisitions are made, the Company anticipates expenditures of \$14,000,000 for these activities in 1995. Internally generated cash flows are currently sufficient to meet existing operating requirements and to reduce the working capital deficiency. The Company, therefore plans to seek outside funding sources to satisfy its capital investment plans. The Company believes that it can acquire the necessary funds through requests for additional funding under existing bank lines of credit, and/or through the sale of Company issued equity or debt/equity securities.

The Company has plans to list its shares on other stock exchanges in the future, as a major portion of its operations are international. Should the Company be unable to obtain equity and/or debt financing, it may be constrained in its ability to acquire and/or develop additional assets.

## *Business Risks*

The Company believes that its Canadian, and United States operations do not carry significant risk of politically motivated disruption. However some of the Company's international operations, carries certain political risks, including possible disruptions in production and transportation of production to the marketplace, resulting from insurgent activities affecting its facilities or the oil and gas pipelines. The Company will continue to take appropriate measures to protect against such risks, including limiting its investment in higher risk areas.

## *Management's Report to the Shareholders*

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management. The financial statements have been prepared in accordance with the accounting policies outlined in the notes to the financial statements. Financial statements include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements.

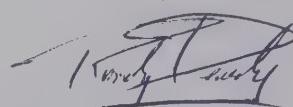
Management has established and maintains a system of internal controls that are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

Price Waterhouse, an independent firm of Chartered Accountants, has been engaged, as approved by a vote of the shareholders at the Company's most recent annual general meeting, to examine the financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

The Board of Directors, have reviewed the financial statements including notes thereto, with Price Waterhouse. The financial statements have been approved by the Board of Directors.



Ilyas Chaudhary  
President



Randy Denecky, C.A.  
Vice President Operations and Controller



May 17, 1995, except for Note 17(b)  
which is as of May 19, 1995.

### **Auditors' Report**

To the Shareholders of  
CAPCO Resources Ltd.

We have audited the consolidated balance sheet of CAPCO Resources Ltd. as at December 31, 1994 and 1993 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

*Price Waterhouse*

Chartered Accountants

# CAPCO Resources Ltd.

## Consolidated Balance Sheet

	December 31	
	1994	1993
<b>Assets</b>		
Current assets		
Cash	\$ 1,188,477	\$ 1,104,004
Accounts receivable	5,066,853	4,723,726
Current portion of notes receivable (Note 4)	334,527	91,673
Other assets	<u>415,426</u>	<u>108,126</u>
	7,005,283	6,027,529
Capital assets (Note 3)	24,844,147	18,117,199
Other assets		
Deposits on properties	70,090	688,603
Notes receivable (Note 4)	505,055	79,302
Investment in Saba Power Company Limited (Note 5)	211,483	-
Deposits and other	357,321	798,150
Due from affiliated companies (Note 9)	<u>-</u>	<u>240,668</u>
	<u>\$32,993,379</u>	<u>\$25,951,451</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	\$ 6,737,880	\$ 5,193,729
Income taxes payable	818,205	1,737,053
Notes payable (Note 7)	2,271,589	859,105
Current portion of long-term debt (Note 8)	<u>3,303,375</u>	<u>1,903,248</u>
	13,131,049	9,693,135
Provision for site restoration costs	969,307	632,420
Long-term debt (Note 8)	7,461,383	6,443,288
Due to affiliated companies (Note 9)	1,041,935	-
Minority interest	3,148,647	2,314,051
Deferred pension liability (Note 10)	2,589,592	2,054,125
Deferred foreign exchange (Note 10)	589,287	595,122
Deferred income taxes	<u>829,960</u>	<u>405,479</u>
	29,761,160	22,137,620
<b>Shareholders' Equity</b>		
Share capital (Note 11)	3,687,558	3,687,558
Contributed surplus	593,778	593,778
Cumulative translation adjustment (Note 12)	483,592	332,611
Deficit	<u>(1,532,709)</u>	<u>(800,116)</u>
	3,232,219	3,813,831
	<u>\$32,993,379</u>	<u>\$25,951,451</u>
Commitments and contingencies (Notes 2, 5, 15 and 17)		

Approved by the Board

N. Solom Director

H. H. H.

Director

# CAPCO Resources Ltd.

## Consolidated Statement of Operations and Deficit

	Year ended December 31	
	1994	1993
Revenue		
Oil and gas sales (net of royalties)	\$23,337,202	\$19,894,273
Other	<u>1,363,893</u>	<u>949,303</u>
	<u><u>24,701,095</u></u>	<u><u>20,843,576</u></u>
Expenses		
Production and operating	14,805,691	11,389,640
General and administrative	<u>4,411,412</u>	<u>4,563,714</u>
Interest and bank charges (long-term \$799,276 and \$570,975)	<u>1,710,811</u>	<u>1,026,289</u>
Depreciation, depletion and amortization	<u>4,025,058</u>	<u>3,537,518</u>
	<u><u>24,952,972</u></u>	<u><u>20,517,161</u></u>
(Loss) income before the following	(251,877)	326,415
(Loss) gain on sale of assets	<u>(26,833)</u>	<u>132,577</u>
Foreign exchange gain	<u>216,120</u>	<u>147,441</u>
	<u><u>(62,590)</u></u>	<u><u>606,433</u></u>
Income tax expense (Note 13)		
Current	248,883	270,309
Deferred	<u>389,665</u>	<u>405,479</u>
	<u><u>638,548</u></u>	<u><u>675,788</u></u>
	<u><u>(701,138)</u></u>	<u><u>(69,355)</u></u>
Minority interest in (earnings) loss of subsidiary	<u>(207,364)</u>	<u>67,166</u>
	<u><u>(908,502)</u></u>	<u><u>(2,189)</u></u>
Dilution gain on subsidiary's share issues	<u>175,909</u>	<u>217,986</u>
(Loss) income for the year	<u>(732,593)</u>	<u>215,797</u>
Deficit, beginning of year	<u>(800,116)</u>	<u>(1,015,913)</u>
Deficit, end of year	<u><u>\$ (1,532,709)</u></u>	<u><u>\$ (800,116)</u></u>
(Loss) earnings per share	<u><u>\$ (.08)</u></u>	<u><u>\$ .02</u></u>

# CAPCO Resources Ltd.

## Consolidated Statement of Changes in Financial Position

	Year ended December 31	
	1994	1993
Cash provided by (used in) operating activities		
Loss for the year before dilution gain	\$ (908,502)	\$ (2,189)
Items not affecting cash		
Depreciation, depletion and amortization	4,025,058	3,537,518
Loss (gain) on sale of assets	26,833	(132,577)
Minority interest in earnings (loss) of subsidiary	207,364	(67,166)
Deferred income taxes	424,481	405,479
Increase in deferred pension liability (Note 10)	535,467	136,354
Increase (decrease) in deferred foreign exchange	(5,835)	268,936
	<u>4,304,866</u>	<u>4,146,355</u>
Net change in non-cash working capital deficiency	<u>1,387,360</u>	<u>(1,246,735)</u>
	<u>5,692,226</u>	<u>2,899,620</u>
Cash provided by (used in) investing activities		
Purchase of capital assets	(11,790,384)	(4,379,763)
Proceeds on sale of capital assets	1,348,432	714,654
Investment in Saba Power Company Limited (Note 5)	(211,483)	
Deposits and other	440,829	(667,386)
Deposits on properties	618,513	(417,266)
Decrease in mortgage receivable	-	14,725
Cumulative translation adjustment	150,981	118,397
	<u>(9,443,112)</u>	<u>(4,616,639)</u>
Cash provided by (used in) financing activities		
Proceeds from notes payable and long-term debt	10,073,708	10,540,558
Principal payments on long-term debt	(7,655,486)	(5,961,105)
Increase (decrease) in due to affiliated companies	1,041,935	(2,347,033)
Decrease (increase) in due from affiliated companies	240,668	(240,668)
Issuance of share capital	-	148,225
Dilution gain on subsidiary's share issues	175,909	217,986
Minority interest resulting from share issue	627,232	350,305
Dividends and return of capital of subsidiary	-	(508,360)
Increase in notes receivable	(668,607)	(37,687)
	<u>3,835,359</u>	<u>2,162,221</u>
Net change in cash for the year	84,473	445,202
Cash, beginning of year	1,104,004	658,802
Cash, end of year	<u>\$ 1,188,477</u>	<u>\$ 1,104,004</u>

# CAPCO Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 1994

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### 1. Corporate items

- a) At December 31, 1994, the Company has a working capital deficiency of \$6,125,766. The Company's ability to continue as a going concern and to realize its assets and to discharge its liabilities is uncertain and is dependent upon the Company maintaining profitable operations and receiving financial support from its lenders and controlling shareholder.

The financial statements have been prepared on the basis that the Company will realize its assets and discharge its liabilities in the normal course of business.

#### b) Business combinations

On December 29, 1992, CAPCO Resources Ltd. ("the Company") agreed to acquire 58.46% of Saba Petroleum Company ("Saba"), a United States oil and gas exploration and development company, and other companies. The consideration was to be satisfied by the Company issuing 20,500,000 treasury shares (6,833,333 after the one-for-three share capital consolidation). The purchase of Saba, but not the other companies, was reflected in the December 31, 1992 financial statements of the Company. It was accounted for as a reverse takeover since the former shareholders of Saba were to become the controlling shareholders of the Company; that is, Saba was treated as the acquirer with the historical accounts of Saba being reflected at cost, the accounts of the Company were also reflected at cost because of significant influence over the Company exercised by the parent of Saba.

On March 23, 1993, the Company agreed to purchase certain Canadian oil and gas properties and Saba de Colombia Inc. ("Saba Colombia"), a Colombian oil and gas exploration and development company. This exchange was accounted for in a manner similar to a pooling of interests, that is, the related historical operations, revenues and expenses, and equity related to the Canadian properties and Saba Colombia were reflected as operations, revenues and expenses, and equity of Saba.

#### c) Control

At December 31, 1994, the Company was controlled by an individual who indirectly held 85.29% of the issued common shares.

### 2. Summary of significant accounting principles

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. Underlying these principles is the assumption that the Company will be able to realize its assets and pay its liabilities in the normal course of business (refer to Note 8(i)). The more significant of the Company's accounting policies are:

#### a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, Saba de Colombia Inc., CAPCO Analytical Services Inc. and CAPCO Resources Inc., which are wholly-owned, and Saba Petroleum Company (the acquiring company on a reverse takeover) which is 62.43% owned.

# CAPCO Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 1994

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### b) Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized in cost centres on a country-by-country basis and charged against earnings as set out below. Such costs include land acquisition, geological and geophysical, carrying charges of non-producing properties and costs of drilling both productive and non-productive wells.

Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion in a cost centre of 20% or more.

Depletion is provided on costs accumulated in producing cost centres using the unit of production method. For purposes of the depletion calculation, gross proved oil and gas reserves, as determined by outside consultants, are used and converted to a common unit of measure on the basis of their approximate energy content.

The Company periodically reviews the cost associated with unproved properties and preproduction stage cost centres to determine whether they are likely to be recovered. When costs are not likely to be recovered, depletion commences or an impairment allowance is made.

The net carrying costs of the Company's oil and gas properties in each producing cost centre is limited to an estimated recoverable amount. This amount is the aggregate of estimated future net revenues from proved reserves and the costs of undeveloped properties, net of impairment allowances. An enterprise ceiling test limits the total net carrying costs, net of deferred income taxes and future site restoration cost provisions, to the aggregate of the estimated future net revenues for all cost centres, less estimated future general and administrative costs, financing costs and income taxes. Future net revenues are calculated using prices in effect at the Company's year end without escalation or discounting.

### c) Refinery equipment

Refinery equipment, consisting of an asphalt refining facility and related equipment, is stated at cost, plus the cost to refurbish the equipment. Depreciation will be calculated using the straight-line method over its estimated useful life, once the refinery begins operations.

Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's useful life. During the year, \$81,424 (\$58,085 U.S.) was capitalized in connection with the refurbishment of the refinery.

### d) Other equipment

Other equipment not directly related to the operations of the petroleum and natural gas interests of the Company are stated at cost less accumulated depreciation. Depreciation of equipment is provided principally on the straight-line method over the estimated useful life of the equipment, ranging from three to seven years.

### e) Joint venture accounting

Substantially all of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others and the accounts reflect the Company's proportionate interest in such activities.

# CAPCO Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 1994

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### f) Foreign currency translation

The financial statements of foreign operations, which are deemed to be self-sustaining, are translated to Canadian dollars using current rates of exchange for balance sheet items and average rates for the year for the statement of operations. Gains or losses resulting from these translation adjustments are deferred in a separate component of shareholders' equity until there is a realized reduction in the parent company's net investment in the foreign operation.

The financial statements of foreign operations, which are deemed to be integrated, are translated to the reporting entity dollars using historical rates of exchange for non-monetary balance sheet items, current rate of exchange for monetary balance sheet items and annual average rates of exchange for operations. Gains or losses are recognized in the statement of operations, except any relating to long-term monetary items which are deferred and amortized over the life of the items.

### g) Provision for site restoration costs

Estimated future site restoration costs are provided for over the life of the estimated proven reserves on a unit-of-production basis. Costs are estimated by management, in consultation with independent engineers, based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and amortization expense and actual site restoration expenditures are charged to the accumulated provision account as incurred.

The Company expects that the Las Monas field in Colombia will still be in commercial production in 2005 when the assets and operations revert to Ecopetrol, the state oil company of Colombia. Under these circumstances and based on current interpretation of the related laws and regulations, no restoration costs are expected to be incurred by the Company, and accordingly, no provisions for any such costs have been made or included in future cost projections.

As the Company has not yet commenced operation of its asphalt refinery, no amount has been provided for future site restoration. Amounts will be provided for once commercial production has commenced.

The Company has a significant contingent liability in connection with the restoration of approximately 225 wells on certain California property acquired by the Company during 1993. The Company acquired the mineral rights and fee title to the property. The Company intends to operate the producing wells on the property as long as economically feasible and will decide in the future regarding the ultimate disposition of the land. If the Company chooses to sell the property, it may decide to sell the land "as is" or incur the restoration costs, thus enhancing the property's value. The Company estimates that the restoration costs will range from \$28,036 (\$20,000 U.S.) to \$35,045 (\$25,000 U.S.) per well, for a total of \$6,308,100 (\$4,500,000 U.S.) to \$7,885,125 (\$5,625,000 U.S.) Management believes that the fair market value of this land, after restoration, will exceed the estimated restoration costs.

### i) Investment in Saba Power Company Limited

The investment in Saba Power Company Limited is recorded using the equity method. All operations to date have been pre-operational project development costs and such costs have been capitalized.

# CAPCO Resources Ltd.

## Notes to Consolidated Financial Statements

December 31, 1994

### i) Earnings per share

Earnings per share is calculated using the weighted monthly average number of shares outstanding.

### 3. Capital assets

	1994			1993
	Cost	Accumulated depletion and amortization	Net book value	Net book value
Petroleum and natural gas properties and equipment	\$34,663,907	\$13,398,450	\$21,265,457	\$17,662,962
Refinery equipment	1,271,291	-	1,271,291	-
Other equipment	881,504	209,919	671,585	454,237
Land	1,635,814	-	1,635,814	-
	<u>\$38,452,516</u>	<u>13,608,369</u>	<u>\$24,844,147</u>	<u>\$18,117,199</u>

### 4. Notes receivable

	1994	1993
6% note receivable (\$11,698 U.S.) from purchase of personal property, due June 30, 1995	\$ 16,398	\$ -
9¾% production note receivable, (\$445,073 U.S.) with monthly instalments of \$22,498 (\$16,050 U.S.), plus interest, through April 1997	623,904	-
.9% note receivable from sale of real estate (\$75,000 U.S.), due July 31, 1995 with a deed of trust covering real property as collateral	105,135	-
Demand note bearing annual interest at 12% with monthly instalments of \$5,653, including interest, through January 1995. Paid in full in January 1994	85,281	-
5% note receivable from a former officer of the Company (\$60,000 U.S.). Matures January 1, 1997. Security is 20,000 shares of Saba common stock	84,108	79,302
Other (1994 - \$7,160 U.S.; 1993 - \$4,836 U.S.)	10,037	6,392
Less: Current portion	<u>839,582</u>	<u>170,975</u>
	<u>334,527</u>	<u>91,673</u>
	<u>\$505,055</u>	<u>\$ 79,302</u>

### 5. Investment in Saba Power Company Limited ("Saba Power")

During the year, Saba Power and several partners received approval to develop, construct and operate a 109 Megawatt power generating plant in the Islamic Republic of Pakistan. The Company holds an indirect equity investment in Saba Power Company Limited of 25.2%. At December 31, 1994, the Company's investment represents its share of project development costs incurred to that date.

The recoverability of the investment is dependent upon successful completion of the project and commencement of commercial production. The Company and its partners have provided a performance guarantee through a bank in Pakistan, in the amount of \$490,500 (10,900,000 Rupees) which can be drawn upon only if the group does not obtain the necessary financing to proceed with the project prior to September 18, 1995.

The agreements between the partners and the Government of Pakistan have several conditions, the most significant being:

- i) The Company must fund a minimum required equity of \$9.5 million (\$6.75 million U.S.) before earning a development fee from the Project of \$3.8 million' (\$2.7 million U.S.) which must be reinvested as part of the Company's equity commitment. The equity funding commitment must be in place by September 18, 1995. Should the Company not meet its required equity commitment, the majority equity partner will fund the difference and reduce the Company's interest proportionately.
- ii) The majority equity partner agrees to fund all project development costs subsequent to September 30, 1994 and will carry on day to day operations of the project, including design, engineering, selecting equipment, obtaining financing and overseeing construction and operations.
- iii) The Company must reimburse its proportionate share of all project development costs, prior to financial closing, paid for by the majority equity holder including interest at 15% per annum. The Company will be responsible for its proportionate share of all remaining projects costs as incurred.
- iv) The project must have minimum equity contribution of 20% of the project's estimated cost of \$172 million (\$123 million U.S.) of which the Company's share would be \$9.5 million (\$6.75 million U.S.). The remaining financing, which must be in place prior to September 18, 1995, is currently being sourced by the majority equity partner.

The Company has not yet determined how it will obtain the necessary financing for its share of the equity commitment but is investigating options available to it.

The Company also has a commitment outstanding for \$140,000 (\$100,000 U.S.) as a finders fee relating to the project.

# CAPCO Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 1994

### 6. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are as follows:

	1994	1993
Trade accounts payable	\$ 4,947,325	\$ 4,200,452
Undistributed revenue payable	334,005	636,960
Other accrued expenses	1,295,724	356,317
Payable to partners re: Saba Power Company Limited (Note 5)	160,826	-
	<hr/> <u>\$ 6,737,880</u>	<hr/> <u>\$ 5,193,729</u>

### 7. Notes payable

	1994	1993
Incurred in connection with the purchase of oil and gas assets in Canada in February 1994. The note paid interest at the Canadian prime rate + 2%, and was due on December 31, 1994. The entire indebtedness, including accrued interest was paid in January 1995	\$ 850,000	\$ -
Notes payable (1994 - \$900,000 U.S., 1993 - \$750,000 U.S.) unsecured, payable on demand, bearing interest at 10%, (variable based on oil prices)	1,261,620	859,105
Production payment obligation payable on monthly net revenues of certain oil and gas properties (1994 - \$114,116 U.S.)	<hr/> 159,969	<hr/> -
	<hr/> <u>\$ 2,271,589</u>	<hr/> <u>\$ 859,105</u>

### 8. Long-term debt

	1994	1993
Loan agreement with a U.S. bank (1994 - \$4,999,000 U.S.) (1993 - \$6,315,000 U.S.) (i)	\$ 7,007,598	\$ 8,346,536
Loan agreement with a Canadian bank (ii)	2,075,000	-
Promissory note (\$1,200,000 U.S.) (iii)	1,682,160	-
Less: Current portion	10,764,758	8,346,536
	3,303,375	1,903,248
	<hr/> <u>\$ 7,461,383</u>	<hr/> <u>\$ 6,443,288</u>

# CAPCO Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 1994

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- (i) In September 1993, Saba consummated a loan agreement ("Agreement") with Bank One, Texas, NA. The loan is subject to semi-annual redetermination and revolves to June 1, 1996, at which time it is to be converted to a three year term loan. Saba's existing U.S. oil and gas producing properties and the common stock of its subsidiaries have been pledged as security and funds advanced under the facility bear interest at U.S. prime (8.5% at December 31, 1994) plus 1%. Saba is charged a commitment fee equal to .5% of the available, but not used, loan amount.

The initial authorized borrowing base was established at \$9,912,750 (\$7,500,000 U.S.). Effective January 1, 1995, the borrowing base was increased to \$11,354,500 (\$8,100,000 U.S.). In accordance with the terms of the Agreement, \$2,207,835 (\$1,575,000 U.S.) was estimated to be payable within the next 12 months. Effective May 1, 1995, the borrowing base was increased to \$15,419,800 (\$11,000,000 U.S.) and the date the loan revolves was extended by one year to June 1, 1997.

The Agreement requires, among other things, that Saba maintain at least a 1 to 1 working capital ratio, minimum stockholders' equity of \$3,800,000 U.S. and adjusted quarterly net earnings equal to 8.3% of the quarter end loan balance. Additionally, Saba is restricted from paying dividends and advancing funds to affiliates. Saba was in compliance with the terms of the agreement at December 31, 1994. Saba was not in compliance with certain covenants of the loan agreement as at March 31, 1995, however, the bank waived its rights under the default provisions on May 11, 1995.

- (ii) One of the Company's Canadian subsidiaries has a demand non-revolving bank loan with principal repayments of \$75,000 on the first day of every month. The loan bears interest at a variable rate equal to the Canadian prime rate (8.0% at December 31, 1994) plus 1-3/4% per annum. The loan is collateralized by the Company's subsidiary's Canadian oil and gas producing properties, the common stock of the subsidiary and a guarantee from the Company in the amount of \$1,500,000. Effective March 1, 1995, the subsidiary was granted an extension on its bank loan which allows it to defer principal repayments for March to May 1995. Terms of the loan agreement require that, based on an annual engineering report, the discounted net present value of the collateralized properties exceed 200% of the outstanding loan balance and that estimated annual future net revenue exceed 175% of that period's debt service. Although the bank can demand payment in full of the note at any time, it has committed not to do so except in the event of a default.
- (iii) The promissory note is due to the seller of an oil refining facility which was acquired by Saba in June 1994. Payment of the note, which bears interest at the U.S. prime rate in effect on the note anniversary date, plus 2% (9.25% at December 31, 1994), is due in annual instalments of \$420,540 (\$300,000 U.S.); \$630,810 (\$450,000 U.S.) and \$630,810 (\$450,000 U.S.). The note is collateralized by a deed of trust on the acquired assets.

Maturities of long-term debt are as follows:

1995	\$3,303,375
1996	3,557,346
1997	2,240,100
1998	1,109,291
1999	554,646

# **CAPCO Resources Ltd.**

## **Notes to Consolidated Financial Statements** **December 31, 1994**

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### **9. Due to/from affiliated companies**

The affiliated companies are ones in which a director and major shareholder has controlling interests. Amounts are unsecured and non-interest bearing.

### **10. Deferred pension liability**

Colombian Labour law requires the Company's Colombian branch to pay retirement pensions to those employees who meet certain age and time in service requirements.

The plan is a non-contributory defined benefit pension plan. The cost is based on an actuarial study, calculated in accordance with the principles of U.S. Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" and the amount represents the estimated present value of such liability at December 31, 1994.

During the year, the Colombian government passed a law to reform pension plans in Colombia. Pension liabilities for employees as at April 1, 1994 were redefined using legislated actuarial parameters and a procedure was introduced to require the employer and employee to make pension contributions to the Colombian government who took over the administration for ongoing pension costs. The pension reform also affected current pensioners and certain transitional workers.

A one time increase of \$518,903 (\$370,169 U.S.) in the pension liabilities for active employees resulted from the differences between the mandated actuarial parameters and expected actuarial parameters. This loss, along with other experience gains of \$47,381 which increased the amount of pension benefits payable to retirees, were deferred from recognition in the financial statements. The Company's share of the net pension expense includes the amortization of these experience gains and losses which are amortized over the life of the Las Monas field in Colombia (refer to Note 2(g)).

# CAPCO Resources Ltd.

## Notes to Consolidated Financial Statements

December 31, 1994

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The components of the accrued benefit pension liability and net pension expense for the Company's share of the Colombian pension plan are as follows:

	1994	1993
Actuarial present value of accrued pension benefits	\$ 3,757,055	\$ 2,323,880
Less: Deferred experience gains/(loss)	(471,522)	(52,112)
Value of pension fund assets	<u>(695,941)</u>	<u>(217,643)</u>
Estimated Colombian pension liability	<u>\$ 2,589,592</u>	<u>\$ 2,054,125</u>
Current year service cost	\$ 17,918	\$ 50,004
Amortization of deferred foreign exchange	(117,840)	
Current year interest cost	<u>701,271</u>	<u>572,929</u>
Net pension expense	<u>\$ 601,349</u>	<u>\$ 622,933</u>

Assumptions used to develop the pension cost are as follows:

Assumed discount rate	30%	30%
Assumed rate of compensation increase	25%	25%
Assumed rate of cost of living increases	22%	22%

In accordance with Canadian generally accepted accounting principles, the Company has deferred current year foreign exchange gains of \$47,737 (1993 - \$268,936) resulting from translation of the Colombian pension liability. These gains will impact future net pension expense, however, they are deferred credits on the balance sheet and will be amortized over the period of funding the liability.

During 1993, the partners began making contributions based on production volumes and expect to have the liability funded over a period of 7 years (year 2000).

# CAPCO Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 1994

### 11. Share capital

#### a) Authorized

Unlimited number of common voting shares  
3,500 cumulative redeemable, retractable preferred shares, series "A"

#### b) Issued and outstanding

	1994		1993	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	9,080,878	\$3,687,558	12,782,956	\$3,539,333
Issued for cash			10,000	1,125
Issued in respect of a share exchange with minority shareholders of Saba at the time of combination			1,025,000	147,100
Total before the following	9,080,878	3,687,558	13,817,956	3,687,558
Effect of business combination (Note 1)				
Issued in respect of the business combination			13,424,653	
Balance, end of year, before share consolidation	<u>9,080,878</u>	<u>\$3,687,558</u>	<u>27,242,609</u>	<u>\$3,687,558</u>
Balance, end of year, after 1 for 3 consolidation (1993)	<u>9,080,878</u>	<u>\$3,687,558</u>	<u>9,080,878</u>	<u>\$3,687,558</u>

The number of shares issued reflects the number of shares issued by CAPCO Resources Ltd. as the legal entity. The dollar amounts reflect the capital accounts of Saba Petroleum Company (adjusted for minority interests), the deemed acquirer in the reverse takeover in 1992. Shares issued in connection with the combination with Saba de Colombia Inc. and the acquisition of the Canadian properties in 1993 are also reflected.

# CAPCO Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 1994

### c) Directors' and management's stock option plan

At December 31, options to purchase shares were outstanding as follows:

	1994	1993
Outstanding, beginning of year	716,667	713,334
Granted	-	-
Exercised	-	3,333
Expired	<u>358,332</u>	-
Outstanding, end of year	<u>358,335</u>	<u>716,667</u>

Expiry date	Price	Number of options
May 1, 1998	1.68	10,000
May 1, 1998	2.10	<u>348,335</u>
		<u>358,335</u>

Subsequent to year end, the Company issued the following options:

January 2, 1998	\$3.00	60,000
January 22, 1998	2.10	300,000
February 7, 2000	2.10	105,000

### 12. Cumulative translation adjustment

	1994	1993
Balance, beginning of year	\$332,611	\$214,214
Changes in exchange rate on opening U.S. dollar investment	225,785	84,667
Effect of exchange rate changes on current year transactions	<u>(74,804)</u>	<u>33,730</u>
Balance, end of year	<u>\$489,592</u>	<u>\$332,611</u>

# CAPCO Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 1994

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### 13. Income taxes

The provision for income taxes in the Statement of Operations varies from the amount that would be computed by applying the expected income tax rate of 44.3% (1993 - 44.3%) to net income before income taxes, minority interest and dilution gain. The principal reasons for the difference between such "expected" income tax expense and the amount actually recorded are as follows:

	1994	1993
Computed "expected" income tax expense (recovery)	\$ (27,727)	\$ 268,650
Increase (decrease) in income taxes resulting from		
Non-deductible interest and penalties	293,514	176,139
Non-deductible crown charges	115,544	27,277
Resource allowance	(131,318)	(21,932)
Reduced tax rate on earnings outside Canada	(65,453)	(98,592)
Losses not recognized for income tax purposes	321,000	295,199
Other	<u>132,988</u>	<u>29,047</u>
	<u>\$638,548</u>	<u>\$675,788</u>

Income earned in Colombia is subject to income tax at a standard rate of 30% plus a surtax of 7.5% for 1993 to 1997. In addition, profits remitted abroad by the Colombian Branch are subject to a remittance tax of 15%. If the Company is able to demonstrate that profits are being reinvested into Colombia over a ten year period, these earnings may be repatriated without any remittance tax. No provision has been made for the remittance tax.

The Company has net operating losses for Federal and State income tax purposes of \$670,000 U.S. and \$190,000 U.S. respectively, which may be carried forward to reduce taxable income of future years. These will begin to expire in 2008 and 1998 if not utilized. The Company has Alternative Minimum Tax Credit carryforwards for Federal and State purposes of approximately \$71,000 U.S. and \$26,000 U.S. which can be used to offset future Alternative Minimum Tax.

The Company has tax losses available in Canada of approximately \$350,000 which expire in varying amounts beginning in 1998.

In addition to the deferred income taxes recorded on the balance sheet, the Company has approximately \$190,000 of available income tax deductions for Canadian income tax purposes in excess of the related book values. The potential benefit of these losses and available tax deductions have not been recognized in the accompanying financial statements.

# CAPCO Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 1994

### 14. Segmented information

During 1994 and 1993 the Company operated predominantly in one industry segment - oil and gas and in four (1993 - three) geographical segments.

1994	Canada	Colombia	United States	Other	Total
Revenue	\$ 2,512,420	\$ 6,155,724	\$ 16,032,951	\$ -	\$ 24,701,095
Segment operating profit (loss)	\$ 215,240	\$ (517,725)	\$ 1,039,171	\$ -	\$ 736,686
Deduct					
Interest on long-term debt	(167,324)	-	(631,952)	-	(799,276)
Income tax expense - deferred	-	(140,730)	(248,935)	-	(389,665)
Income tax expense - current	(114,000)	(72,682)	(62,201)	-	(248,883)
Minority interest share of profits	-	-	(207,364)	-	(207,364)
Loss before dilution gain	\$ (66,084)	\$ (731,137)	\$ (111,281)	\$ -	\$ (908,502)
Identifiable assets	\$ 5,467,197	\$ 5,807,459	\$ 21,507,240	\$ 211,483	\$ 32,993,379
Depreciation, depletion and amortization	\$ 628,196	\$ 952,677	\$ 2,444,185	\$ -	\$ 4,025,058
1993	Canada	Colombia	United States	Total	
Revenue	\$ 721,768	\$ 6,524,825	\$ 13,596,983	\$ 20,843,576	
Segment operating profit (loss)	\$ (647,993)	\$ 1,449,879	\$ 375,522	\$ 1,177,408	
Deduct					
Interest on long-term debt	-	-	(570,975)	(570,975)	
Income tax expense - current	-	(270,309)	-	(270,309)	
Income tax expense - deferred	-	(405,479)	-	(405,479)	
Minority interest share of losses	-	-	67,166	67,166	
Earnings (loss) before dilution gain	\$ (647,993)	\$ 774,091	\$ (128,287)	\$ (2,189)	
Identifiable assets	\$ 1,683,153	\$ 6,315,960	\$ 17,952,338	\$ 25,951,451	
Depreciation, depletion and amortization	\$ 241,648	\$ 899,401	\$ 2,396,469	\$ 3,537,518	

# CAPCO Resources Ltd.

## Notes to Consolidated Financial Statements

December 31, 1994

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### 15. Commitments and contingencies

The Company is subject to extensive Federal, State, Provincial and local environmental laws and regulations. These laws, which are constantly changing, include regulations of the discharge of materials into the environment. The Company believes that it is in compliance with existing laws and regulations.

The Company is a defendant in various legal proceedings and claims which arise in the normal course of business. Based on discussions with legal counsel, the Company does not believe that the ultimate resolution of such actions will have a significant effect on the Company's financial position.

The Company is also a defendant in a legal proceeding which arises from the former operations of the Company which were sold to outside parties several years ago. The claim is for mortgage default of approximately \$609,000 on a real estate property with an appraised value of approximately \$492,000.

#### Leases

The Company is committed under non-cancellable leases for office space, vehicles, and office equipment which expire in years 1995 through 2000. Future minimum payments are as follows:

1995	\$335,405
1996	314,671
1997	300,132
1998	172,700
1999	5,732
Remaining years	234

### 16. Related party transactions

Related party transactions are described as follows:

SEDCO, Inc., a Delaware Corporation controlled by a shareholder, has in the past advanced funds to the Company. These advances aggregated approximately \$142,733 in 1994. Indebtedness of \$2,347,033 was repaid by the Company in 1993.

Included in accounts receivable at December 31, 1993 is \$127,812, which is due from an affiliated company.

In 1994, the Company and its subsidiary sold certain oil and gas producing properties to an affiliated company for total consideration of approximately \$180,000 (\$131,000 U.S.) (1993 - \$612,655 (\$475,000 U.S.)). In the opinion of management, this amount represented fair market value.

In 1994, the Company charged its affiliates \$66,560 (\$48,731 U.S.) (1993 - \$58,041) and was charged nil (1993 - \$145,387 (\$110,000 U.S.)) respectively, by affiliates for reimbursement of certain general and administrative expenses.

In 1994, the Company charged its affiliates \$33,874 (\$24,800 U.S.) for costs related to property settlements.

# CAPCO Resources Ltd.

## Notes to Consolidated Financial Statements December 31, 1994

### 17. Subsequent events

- a) In January 1995, the Company, through a subsidiary, acquired certain oil and gas assets in Colombia, South America at a cost of \$1,752,250 (\$1,250,000 U.S.). The purchase price was funded from proceeds available under the Company's U.S. revolving line of credit. The acquisition represents a 25% interest in an area encompassing 3,800 gross (950 net) acres and includes 82 active wells, 61 of which are oil producers. Proved reserves, net to the Company's interest, is estimated to be approximately 2,971,000 barrels of oil.
- b) In March and April 1995 the Company's U.S. subsidiary announced that it had entered into definitive purchase and sale agreements to purchase oil and gas properties in California, Texas and Colombia, South America. The estimated acquisition cost and anticipated closing date for each of the planned acquisitions is as follows:

Location	Estimated acquisition cost	Anticipated closing date
California	\$ 420,540 (U.S. \$ 300,000)	June 1995
Texas	\$3,868,968 (U.S. \$2,760,000)	May 1995
Colombia	\$9,812,600 (U.S. \$7,000,000)	June 1995

Funding of the California acquisitions will be provided from internally-generated funds and from proceeds provided under the Company's revolving line of credit. The Colombian acquisition will be funded from other financing sources. Concerning such financing, management has had preliminary discussions with investment bankers and other lenders, but as of May 17, 1995, the Company has not entered into any definitive commitments for such funding. On May 19, 1995, the Company's U.S. subsidiary closed the acquisition of certain producing oil and gas wells in Texas for total consideration of \$3,868,968 (\$2,760,000 U.S.) funded by an extension of the Company's debt (see Note 8(i)).

- c) In April 1995, the Company's U.S. subsidiary received approval from the County of Santa Barbara, California to commence operations at its asphalt refinery in Santa Maria, California. This subsidiary has entered into a processing agreement with a third party under which working capital for operating expenses and crude oil purchases will be provided by the third party. Net results of operations will be shared equally between the parties.
- d) The Company has executed a reverse takeover agreement, effective April 1, 1995, with an unaffiliated third party, by which one of its Canadian subsidiaries, will be merged with the third party. All of the outstanding shares of this subsidiary will be exchanged for 14,437,322 shares of common stock of the third party, or approximately 70% of the issued and outstanding shares of common stock of that company. Closing of the transaction is subject to regulatory and shareholder approval, which is expected by September 1, 1995. The reverse takeover was effected to expand the funding alternatives available in Canada for future acquisition and development activities.
- e) On April 22, 1995, the Company signed a Project Development and Shareholders' Agreement relating to the power generating plant in Pakistan which converted the indirect equity holding into direct investment in Saba Power.

# **CAPCO Resources Ltd.**

## **Notes to Consolidated Financial Statements**

**December 31, 1994**

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- f) On January 20, 1995, the Company entered into a definitive merger agreement with Meteor Industries, Inc. (Meteor), a United States public company engaged in the wholesale and retail marketing of petroleum products with operations in Colorado and New Mexico. The Company will exchange shares of CAPCO for all the shares of Meteor. Although the number of shares is yet to be determined, the Company will issue a maximum of 2,091,250 shares.

### **18. Retirement plan**

The Company's U.S. subsidiary (Saba Petroleum Company) sponsors a defined contribution retirement savings plan ("401(k) Plan") to assist all eligible U.S. employees in providing for retirement or other future financial needs. The Company currently provides matching contributions equal to 50% of each employee's contribution, subject to a maximum of 4% of employee earnings. The Company's contributions to the 401(k) Plan were \$4,549 (\$3,245 U.S.) in 1994 and \$3,147 (\$2,245 U.S.) in 1993.

### **19. Reclassification**

Certain previously reported financial information has been reclassified to conform to the current year's presentation.

# *Company Profile*

## **Board of Directors**

Ilyas Chaudhary,  
President, Capco Resources Ltd.  
President & Chief Executive Officer,  
Saba Petroleum Company

William E. Richards  
Private Investor and Business Consultant

Nazrul Islam  
President of Alpetro Resources Ltd.

## **Officers**

Ilyas Chaudhary  
President

Randy Denecky, C.A.  
Vice President Operations  
and Controller

## **Independent Auditors**

Price Waterhouse  
1200, 425 - 1st Street S.W.  
Calgary, Alberta, Canada  
T2P 3V7

## **Legal Counsel**

Burnet Duckworth & Palmer  
1400, 350 - 7th Avenue S.W.  
Calgary, Alberta, Canada  
T2P 3N9

## **Registrar and Transfer Agent**

R-M Trust Company  
P.O. Box 2517  
Calgary, Alberta  
T2P 4P4

## **Abbreviations**

BBLS	barrels
BOE	barrels of oil equivalent
BOPD	barrels of oil per day
MCF	thousand cubic feet
MCFD	thousand cubic feet per day
LPG	liquid petroleum gas
Conversion	6 MCF = 1BOE

## **Corporate Headquarters**

950, 444 - 5th Avenue S.W.  
Calgary, Alberta, Canada  
T2P 2T8  
Phone (403) 234-9000  
Fax (403) 237-6474

## **Subsidiary Companies**

Saba Petroleum Company, and  
Saba Realty, Inc., and  
Capco Resources Inc.  
17512 Von Karman Avenue  
Irvine, California 92714

Saba Petroleum Inc.  
3201 Skyway Drive, #204  
Santa Maria, CA 93455

Santa Maria Refining Company  
1660 Sinton Road  
Santa Maria, CA 93456

Saba Energy of Texas, Incorporated, and  
Saba Petroleum of Michigan, Inc.  
1603 S.E. 19th Street, # 202  
Edmond, Oklahoma 73017

Capco Resource Properties Ltd.  
950, 444 - 5th Avenue S.W.  
Calgary, Alberta  
T2P 2T8

Saba De Colombia Inc., and  
Sabacol, Inc.  
Diagonal 109 No. 1560, Office 301  
Sante FeDe Bogota, Colombia

Capco Analytical Services, Inc.  
1536 Eastman Avenue, Ste B  
Ventura, California 93003

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### **18. Retirement plan**

Williams E. Richards

19. Reclassification #304

Ulysse Chauvière

Certain previously reported financial information has been reclassified to current period under GAAP. See Note 1 for further details.

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